INFORMATION ON THE GLOBALIZATION DEBATE

Estimate of Global income gains from Uruguay Round

- Recent studies conducted by the Council of Economic Advisers of some potential Uruguay Round benefits estimate that the annual global income could rise $171 billion to $214 billion upon full implementation, in 1992 dollars; for the U.S. alone, the gains could amount to $27 billion to $37 billion each year. Scaling these benefits up to the size of the economy in 2000 yields a range of between $42 billion and $58 billion. Per average household of four, this translate into a per year income gain of $600 to over $800.

- These studies of Uruguay Round benefits tend to understate the gains from trade because of high product aggregation, incomplete accounting of the growth effects of trade and the inability to measure the effects of many non-tariff measures, rules changes and trade in services.

Uruguay Round and NAFTA/CFTA as Tax Cuts

- Uruguay Round: Had pre- Uruguay Round tariff rates been applied to 1999 U.S. imports, duty collections would have been an estimated $21.4 billion higher. The Uruguay Round tariff cuts were thus similar to a $310 tax cut for an average household of four.

- NAFTA/CFTA (U.S.-Canada Free Trade Agreement): Had NAFTA/CFTA tariff rates been applied to 1999 U.S. imports, duty collections would have an estimated $ 14.2 billion higher. The NAFTA/CFTA tariff cuts were thus similar to a $210 tax cut for an average household of four.

Poverty Reduction and Income Distribution in Poor Countries

- Research done by David Dollar and Aart Kraay at the World Bank compares developing countries that participate more in globalization (accounting for 50% of developing world population) with other developing countries and the high-income countries. They find that from the 1970s to the 1980s to the 1990s, growth rates accelerated for the globalizing developing countries while they decelerated for high-income countries and non-globalizing developing countries. In the 1990s, per capita incomes grew 5.1% for globalizing developing countries, by 1.9% for high-income countries, but declined by 1.1 percent for non- globalizing developing countries.

- The successful globalizing LDCs were found to have cut their tariffs three times more (by 34 percentage points) than was the case for non-globalizing LDCs (cut by 11 percentage points) between the mid-1980 and late 1990s. The trade share of GDP doubled for the globalizers between the late-1970s and the late-1990s, while the trade share for non-globalizers actually fell by 12 percent.

- The authors also found that the acceleration of growth rates that accompanied expanded trade in the globalizing countries generally translated into proportionate increases in the income for the poor. Thus absolute poverty in the globalizing developing countries dropped sharply in the last 20 years, supporting the view that globalization leads to faster growth and poverty reduction in developing countries.

Globalization and Foreign Investment

- The OECD in "Open Markets Matter: The Benefits of Trade and Investment Liberalization" found that foreign direct investment (FDI) by companies from the OECD is courted by host countries for two reasons: direct benefits to jobs, tax revenues and growth, and large indirect or spillover benefits in improving the quality of local labor, management and technical know how. Improved environmental quality is another potential benefit since OECD firms typically bring their (higher) environmental standards with them when they invest. By paying above average wages, buying goods and services, paying taxes, transferring knowledge and technology and re-investing their earnings locally, foreign firms can add considerably more value to host economies than any profits they remit.

- The United States is not only a large foreign investor, but itself is the world's largest recipient of FDI ($275.5 billion in 1999, or 32% of global FDI flow in that year), according to the UNCTAD. In 1998 foreign affiliates in the United States accounted for 6.3% of U.S. private sector GDP ($418 billion). Non-bank foreign affiliates supported 5.6 million U.S. jobs in 1998, 41% of which was in manufacturing. 13% of manufacturing employment in the U.S. was for foreign affiliates. Average hourly wages paid to employees of foreign-owned affiliates located in the United States were in turn 14% more than those in U.S. owned establishments (in 1991, latest available, Survey of Current Business)

- Some argue that direct investment abroad by U.S. firms is to take advantage of slack standards and low wages in developing countries. However, nearly 70% (actual: 68.5%) of U.S. direct investment abroad is in other high income countries. As the OECD has argued, middle and low income countries actively court investment from countries like the United States because of the economic benefits they bring, including to local workers. The OECD also pointed out that multinational firms from rich countries tend to bring their higher environmental standards with them when they invest in poorer countries.

Per capita cost of trade barriers

- According to a 1999 U.S. ITC study, if all significant, quantifiable U.S. tariff and non tariff restraints were eliminated in 1996, U.S. economic welfare (real income) would have been as much as $14.9 billion higher ($12.4 billion from the significant restraints and $2.5 billion from all other tariffs). This is a per capita level of $56. The gains from removing U.S. trade restrictions are likely to be underestimated for the same reasons as cited for the Uruguay Round above.

- The economic welfare gains to be achieved from a total opening of textile and apparel imports, at $10.4 billion, accounts for more than 3/4ths of the forgone economic welfare estimated by the ITC. Other major sectors include: Maritime (the Jones Act) for $1.3 billion; Sugar for $986 million; Footwear for $501 million; and Dairy for $152 million.

Consumer Costs of Trade Protection

- In addition to lowering national income overall, trade protection shifts income from consumers to producers. The consumers costs of trade protection therefore generally exceed the loss to national income.

- In 1994, Gary Hufbauer and Kimberly Elliott estimated that consumer costs of tariffs and quantitative restrictions in effect in the United States in 1990 was $70 billion, or 1% of GDP. This figure would have represented about $1,100 for the average household of four persons in 1999. The Hufbauer and Elliot figures must be consider substantial underestimates because they do take account of the following factors:

  –non-quantitative restrictions, or restrictions to goods trade not easily quantified;

  –restrictions to trade in services; or

  –the foregone dynamic growth effects of trade liberalization (the estimated static efficiency effects only.

- Conversely, the OECD reports on empirical research estimating that trade liberalization has put A$1,000 per year in the pockets of the average Australian family.

U.S. Income Distribution

- The asserted widening of U.S. income disparities resulting from market opening agreements like the NAFTA and the Uruguay Round does not appear in the subsequent statistical data. In addition to strong income gains and reductions in poverty in the United States, the most recent Census Bureau report on money income in the United States (through 1999) shows that overall income inequality has not changed since 1993. That is to say that there has been no statistically significant change in the shares of aggregate income going to each of the 5 quintiles of household income since 1993, even as income has risen rapidly. All have benefitted.

Trade Leading to Higher Wages in the United States

- Wages depend on productivity. As markets open up, we expand exports from our most productive industries. Trade helps shift the growth in new job opportunities toward more productive, higher paying jobs supported by U.S. goods exports

- Studies find below average wages for import competing jobs. Summers and Katz of Harvard published a study estimating that jobs in import competing industries pay wages roughly 16% below the U.S. national average. These lower wages reflect in large part the lower productivity in many U.S. import competing sectors.

- Jobs supported by exports in 2000 are estimated at a record 12.1 million. One in 5 manufacturing jobs are estimated to be supported by U.S. exports. Export supported jobs pay, on average, 13 to 18 percent more than the national average.

- Other research has established that in the United States labor productivity is 40% higher in plants that exports, compared to plants producing solely for domestic production. The growth rate in productivity in the high productivity plants was also 3 times the national average in 1986-94. Wages in such plants were 13% higher than the U.S. national average. Employment growth in such exporting plants has also been systematically higher than in comparable non-exporting firms.

NAFTA: Served Both Countries Well During and After Peso Crisis

- Our exports to Mexico recovered in only 17 months after the 1994/5 peso crisis, as opposed to 7 years after its 1982 crisis.

  --1994-95 crisis: November 1994, U.S. exports to Mexico peaked $4.6 billion; in December, 1st month of peso crisis, exports were$4.3 billion; exports reached lowest point April 1995, $3.4 billion; exports fully by May 1996, $4.7 billion, 17 months after the crisis began.

  --1982 crisis: 1981, U.S. exported $17.8 billion to Mexico; lowest point 1983, $9.1 billion; recovery 1988, $20.6 billion.

  - Mexico also raised its applied tariffs in 1995, but could not do so on U.S. exports. Mexico continued to reduce tariffs in line with its NAFTA obligations, while placing additional restrictions on imports from its non-NAFTA trading partners. Consequently, the U.S. share of Mexico's imports rose form 71 percent in 1994 to 74 percent in 1995, while Western Europe's Japan's and Korea's exports to Mexico fell by 30, 15, and 27 percent, respectively.

NAFTA: Mexico and the United States Have Thrived Under NAFTA

- Since the Peso crisis which lowered Mexico's GDP by 6.1% in 1995, Mexico has grown dramatically, thanks in part, to NAFTA: up 5.1% in 1996, up 6.8% in 1997, up 4.8% in 1998, up 3.7% in 1999, and up 7.1% in 2000 (source: DRI). This has not come at the expense of the United States, with growth rates of 3.6% in 1996, 4.4% in 1997, 4.4% in 1998, 4.2% in 1999, and 5.0% in 2000.

- Mexico's Real Per Capita GDP has increased by 8.3% between 1993 and 1999, despite the peso crisis (which NAFTA did not cause). [14,276 pesos in 1993 to 15,465 pesos in 1999, in constant 1993 prices]

- Since NAFTA took effect, employment has risen in all 3 NAFTA countries: During NAFTA's first 5 years:
  – Employment in Canada grew by 10%, generating 1.3 million jobs
  – Employment in Mexico grew by 22%, generating 2.2 million jobs
  – Employment in the United States grew by more than 7%, generating 12.8 million jobs.

- In 2000, U.S. jobs supported by merchandise exports to NAFTA totaled an estimated 2.9 million jobs, up over 900,000 jobs since 1993, when NAFTA implementation started. Nearly 1.2 million jobs are supported by U.S. exports to Mexico (up nearly 550,000 since 1993) and 1.7 million jobs are supported by U.S. exports to Canada (up over 350,000 since 1993).

NAFTA: NAFTA Did Not Lead to Feared Massive U.S. Capital Flight

- Critics have feared that NAFTA would reduce investment and therefore jobs, in the United States. In fact, total U.S. FDI in Mexico is a small share (3.0%) of U.S. FDI abroad ($34.3 billion of FDI stock in Mexico from $1.1 trillion FDI stock total abroad). U.S. capital outflows to Mexico have ranged between $2 billion and $6 billion between 1994 and 1999; U.S. capital outflows to the world ranged between $73.3 billion and $138.5 billion between 1994 and 1999; and U.S. capital inflows from the world ranged between $45.1 billion and $271.2 billion between 1994 and 1999.

- In fact:

  U.S. Industrial Production: up 43% since 1993.
  U.S. real hourly earnings: up 6.6% since 1993.
  U.S. real weekly earnings: up 6.7% since 1993.

NAFTA: Growth in Trade

- The trade numbers alone tell a compelling story. Mexico and Canada alone accounted for 47 percent - nearly half - of total U.S. export growth over the period NAFTA has been in place (1993 vs 2000).

- Exports to our NAFTA partners increased 104 percent between 1993 and 2000, while the growth for the rest of the world was 52 percent for the same period.

- Import growth over that time period was 142 percent, but NAFTA accounts for only 34 percent of total import growth.

- Export growth has been solid across the board. For our top 5 export categories, NAFTA export growth was 110% from 1993-2000, compared with 92 percent for the world.

- This includes manufacturing exports from our most sophisticated - and high-paying sectors: electrical and non-electrical machinery, autos, and medical equipment.

- In 2000, we traded $1.1 billion a day of merchandise with Canada ($490 million of exports, $627 million of imports). We traded $677 million a day of merchandise with Mexico ($304 million of exports, $373 million of imports). For NAFTA, we traded $1.8 billion a day ($795 million of exports, $1 billion of imports).

- Increasing coproduction between the U.S. and Mexico have strengthened the competitiveness of production in both countries and contributed to sustained growth.

For Note:

Trade and Growth of Trade

- The United States is the largest trading nation in the world. It is the largest goods trading country in the world (both exporting and importing) as well as the largest services trading country in the world.

- Trade (exports and imports of goods and services, and the receipt and payment of earnings on foreign investment) has increased 25-fold since 1970 and nearly 120 percent since 1990. In 2000, the value of U.S. trade reached a record $3.4 trillion.

    -- Exports of goods and services, and earnings on investment doubled between 1990 and 2000. In 2000, exports increased by 15 percent in 2000, its fastest rate since 1995.

-- Imports of goods and services, and payments on investment expanded by 138 percent between 1990 and 2000. Imports increased by 20 percent in 2000, their highest growth rate since 1984.

- U.S. trade expansion was more rapid in the 1970-2000 period than the growth of the overall U.S. economy, in both nominal and real terms. In nominal terms, trade has grown at an annual average rate of 11.4 percent per year since 1970, compared to U.S. gross domestic product (GDP) whose growth was 7.8 percent. In real terms, the growth in trade was more than double the pace of GDP growth, 7.0 percent versus 3.2 percent.

Trade as Percentage of the Economy

- The value of trade in goods and services, including earnings and payments on investment, reached a record 33.7 percent of the value of U.S. GDP in 2000. This represented an increase from the corresponding figures for 1999 (31 percent), 1990 (26 percent) and 1970 (13 percent). For trade in goods and services, excluding investment earnings and payments, U.S. trade reached 26.0 percent of the valuation of GDP 2000, up from 24 percent in 1999, 20 percent in 1990 and 11 percent in 1970.

- Between 1990 and 2000, exports of goods and services have accounted for one-fifth of U.S. economic growth. (If you were to include earnings on foreign investment, exports under this broader definition, accounted for one-fourth of U.S. economic growth during the same period.)

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